

File

MAHER
SHOES

LIMITED



ANNUAL
REPORT

January 31st, 1971



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MAHER SHOES LIMITED

Annual Report for the fiscal year ended January 31, 1971

DIRECTORS

LANE R. CHESTER

JACK B. COUTTS

EARL H. ORSER

JAMES R. SOUTH

GEORGE F. TRAVELLE

DONALD G. WILLMOT

THOMAS P. WILSON

OFFICERS AND MANAGEMENT

LANE R. CHESTER, Chairman of the Board

JACK B. COUTTS, President

THOMAS P. WILSON, Vice-President

GEORGE F. TRAVELLE, Secretary

FRANK R. HARVEY, Treasurer

J. WEMYSS REID, President — Copp the Shoe Man Limited

DONALD E. ROSS, Merchandising Director

LORNE D. PHILLIPS, Sales Manager — Maher Shoe Stores

ROBERT C. WILSON, Sales Manager — Bonita Stores

ECKHARDT J. BAKER, Sales Manager — Leased Departments

AUDITORS

CLARKSON, GORDON & CO., TORONTO, CANADA

SOLICITORS

FRASER & BEATTY, TORONTO, CANADA

MCCARTHY & MCCARTHY, TORONTO, CANADA

HEAD OFFICE

144 FRONT STREET WEST, TORONTO 1, CANADA

TRANSFER AGENT AND REGISTRAR

THE CANADA TRUST COMPANY, TORONTO, CANADA

HIGHLIGHTS

	1971	1970	1969	1968	1967
Net Earnings per Common Share	2.37	2.55	2.43	1.98	1.78
Cash Flow per Common Share	3.74	3.78	3.41	2.75	2.54
Net Earnings	571,119	604,173	580,648	490,044	450,577
Dividends Paid					
per Preference Share	.60	.60	.60	.60	.60
per Common Share	.70	.62	.54	.48	.46
Return on Average Invested Capital	20.0%	24.3%	26.4%	25.0%	25.3%
Federal and Provincial Income Taxes	584,000	632,000	688,000	566,000	492,000
Depreciation and Amortization	261,902	231,685	185,735	129,538	122,557
Fixed Asset Additions (net)	655,246	452,023	295,147	115,768	288,886
Working Capital	1,693,516	1,788,950	1,631,595	1,715,380	1,451,512

REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS

FINANCIAL

Consolidated net sales for the fiscal year ended January 31, 1971 reached a record high of \$16,135,000, an increase of 7.7% over the previous year. Net earnings of \$571,119. (or \$2.37 per common share) declined from \$604,173. (or \$2.55 per common share) the previous year. Earnings per common share have been based on the weighted average number of shares outstanding in each of the two years reviewed.

Factors contributing to the reduction in net earnings during the year are largely attributed to the constant upward pressures of the cost of doing business, including the high cost of borrowed funds and amortization of increased fixed investment. In the year ahead, economic activity is expected to gradually gain momentum, which together with continued expansion, diversification and the elimination of marginally profitable units, should contribute to an improved profit performance.

EXPANSION

During the past fiscal year, several new stores were opened. The most noticeable of these were located in large regional enclosed shopping malls such as Devonshire in Windsor, Albion in Toronto, Thompson Park, Kamloops and Fredericton, New Brunswick. In addition to openings in major regional shopping malls, several Maher, Copp and Bonita boutiques were opened across Canada including pioneer units in Saskatchewan and Manitoba as well as a further strengthening of operations in the Atlantic Provinces.

In 1971, Maher will enter the Province of Quebec with a three store complex in Trois-Rivières. The entrance into Quebec will mark a milestone in the company's history completing a coast to coast expansion with representation in all provinces, except Newfoundland and Prince Edward Island.

The company's policy recognizes the need for each retail outlet to be a self-supporting economic unit within the corporate structure. Each new location requires extensive research and plan co-ordination in respect to the selection of the merchandise concept, design and operating efficiency, as well as a careful analysis of the capital investment required and of the profit return which can be expected. In addition to the careful selection of new store locations, continuing analysis is made of the performance of the older established units and a number of these are now being closed due to declines in their margins of profitability caused by changes in market conditions. Our expansion program, together with the selective modernization of older existing units, required a net investment of \$655,000 in 1970, the highest outlay for this purpose in the history of the company.

TRENDS AND DIVERSIFICATION

Today's consumer places more emphasis on fashion and variety, greater flexibility in pricing policies and a more sophisticated shopping atmosphere.

This has resulted in a clear trend towards more specialized stores designed for distinct tastes, life styles and age groups. In recognition of these changing market conditions, the company has augmented the traditional family store with highly specialized men's and women's fashion boutiques. We believe that this diversification places the company in a favourable competitive position to take advantage of expanding and changing market opportunities.

The company operates under the banners of Maher, Copp, Bonita and The Shoe Man covering successfully the broad range of footwear and accessory needs of today's individualistic consumer. In addition, the company is operating shoe franchises in a number of department stores.

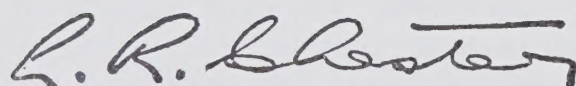
MANUFACTURING

Early in 1970, the manufacturing department of the company was discontinued. This division had been a marginal operation for some time, and it would have required a considerable capital expenditure to modernize and improve profit performance. All staff members associated with the manufacturing department were either relocated or retired on company pension. The company has not experienced any difficulty in acquiring comparable footwear from outside sources for its merchandising activities which are now confined to retail and wholesale operations.

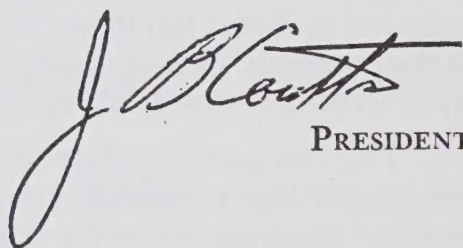
STAFF

The directors acknowledge with appreciation and gratitude the outstanding contribution of the staff which has given the company a strong competitive base from which to go forward into the following year.

On Behalf of the Board of Directors



CHAIRMAN OF THE BOARD



PRESIDENT.

Toronto, Canada, May 19, 1971.

AUDITORS' REPORT

To the Shareholders of

MAHER SHOES LIMITED:

We have examined the consolidated balance sheet of Maher Shoes Limited and its wholly-owned subsidiary as at January 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,

April 1, 1971

CLARKSON, GORDON & CO.,

Chartered Accountants

MAHER SHC
and its wholly-owned subsidiaries
CONSOLIDATED
BALANCE SHEET
JANUARY 31, 1971

	1971	1970
ASSETS		
Current:		
Cash	\$ 15,405	\$ 13,777
Accounts receivable	257,308	246,547
Inventories, at the lower of cost or net realizable value	3,151,342	3,148,750
Prepaid expenses and other current assets	101,761	41,332
	<u>3,525,816</u>	<u>3,450,406</u>
Fixed:		
Buildings (note 2)	701,809	672,240
Fixtures and equipment, at cost	1,300,952	1,537,787
	<u>2,002,761</u>	<u>2,210,027</u>
Less accumulated depreciation	743,187	1,050,880
	<u>1,259,574</u>	<u>1,159,147</u>
Land (note 2)	608,961	614,127
Improvements to store premises, at cost less accumulated amortization	1,043,131	736,606
	<u>2,911,666</u>	<u>2,509,880</u>
Other:		
Debenture issue expenses, less amounts written off	28,619	32,172
Excess of cost of investment in a predecessor company over the values assigned to its tangible assets as at date of acquisition	1,172,595	1,172,595
	<u>1,201,214</u>	<u>1,204,767</u>
	<u>\$7,638,696</u>	<u>\$7,165,053</u>
On behalf of the Board:		
Lane R. Chester, Director		
Jack B. Coutts, Director		

See accompanying notes

LIMITED

l subsidiary

ANCE SHEET

, 1971

LIABILITIES

	<u>1971</u>	<u>1970</u>
Current:		
Bank indebtedness	\$ 412,040	\$ 409,057
Accounts payable and accrued charges	1,181,661	854,662
Income and other taxes payable	238,599	346,737
Current portion of long-term debt (note 3)		51,000
	<u>1,832,300</u>	<u>1,661,456</u>
Long-term Debt (note 3):		
61¼ % sinking fund debentures Series A maturing April 1, 1987	1,525,000	1,650,000
Less instalment due within one year included under current liabilities		51,000
	<u>1,525,000</u>	<u>1,599,000</u>
Deferred Income Taxes	<u>69,880</u>	<u>50,000</u>
Shareholders' Equity:		
Capital (note 7) —		
Authorized:		
156,675 60¢ cumulative, non-redeemable preference shares without par value		
400,000 common shares without par value		
Issued:		
156,666 preference shares	1,413,127	1,413,127
209,900 common shares		
(200,000 shares in 1970)	1,052,616	1,032,816
	<u>2,465,743</u>	<u>2,445,943</u>
Retained earnings	<u>1,745,773</u>	<u>1,408,654</u>
	<u>4,211,516</u>	<u>3,854,597</u>
	<u>\$7,638,696</u>	<u>\$7,165,053</u>

g notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED JANUARY 31, 1971

	<u>1971</u>	<u>1970</u>
Sales	<u>\$16,135,000</u>	<u>\$14,979,000</u>
Earnings before the undernoted items	<u>\$ 1,602,689</u>	<u>\$ 1,638,107</u>
Deduct:		
Depreciation and amortization	261,902	231,685
Debenture interest (note 3)	75,719	97,127
Bank and other interest (net)	109,949	73,122
	<u>447,570</u>	<u>401,934</u>
Earnings before income taxes	1,155,119	1,236,173
Income taxes	<u>584,000</u>	<u>632,000</u>
Net earnings for the year	571,119	604,173
Retained earnings, beginning of year	1,408,654	1,022,481
	<u>1,979,773</u>	<u>1,626,654</u>
Deduct:		
Dividends paid on —		
Preference shares — 60¢ per share	94,000	94,000
Common shares—70¢ per share (62¢ in 1970)	140,000	124,000
	<u>234,000</u>	<u>218,000</u>
Retained earnings, end of year	<u>\$ 1,745,773</u>	<u>\$ 1,408,654</u>
Earnings per common share	<u>\$2.37</u>	<u>\$2.55</u>

See accompanying notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED JANUARY 31, 1971

	<u>1971</u>	<u>1970</u>
Funds provided:		
From operations —		
Net earnings for the year	\$ 571,119	\$ 604,173
Add (deduct) non-cash items:		
Depreciation and amortization	261,902	231,685
Deferred income taxes	19,880	14,000
Gain on disposal of fixed assets	(8,442)	(3,358)
Debenture issue expenses written off	3,553	3,575
	<u>848,012</u>	<u>850,075</u>
Disposal of company-owned properties	147,244	
Special refundable tax		30,303
Issue of common shares (note 7)	19,800	
	<u>1,015,056</u>	<u>880,378</u>
Funds applied:		
Additions to company-owned properties	143,453	101,407
Fixtures, equipment and improvements (net)	659,037	350,616
Reduction in long-term debt (note 3)	74,000	53,000
Dividends	234,000	218,000
	<u>1,110,490</u>	<u>723,023</u>
Increase (decrease) in working capital	(95,434)	157,355
Working capital, beginning of year	1,788,950	1,631,595
Working capital, end of year	<u><u>\$1,693,516</u></u>	<u><u>\$1,788,950</u></u>

See accompanying notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1971

1. The consolidated financial statements reflect the financial positions and operating results of Maher Shoes Limited and its wholly-owned subsidiary, Copp The Shoe Man Limited.
2. The company's land and buildings are valued at depreciated replacement value as determined by General Appraisal of Canada Limited (formerly Dominion Appraisal Company Limited) in 1965, with subsequent additions at cost. Depreciation charges are based on the appraised asset values where applicable.
3. During the year the company purchased for redemption Series A debentures sufficient to meet the annual sinking fund payment due April 1, 1971 and a portion of the payment due in 1972. Consequently, the payment required to meet the April 1, 1972 sinking fund provision is \$43,000. Payments required thereafter are approximately \$70,000 per annum to date of maturity. The debentures are secured by a first floating charge on the assets of the company.

Debenture interest consists of the following:

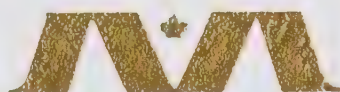
	<u>1971</u>	<u>1970</u>
Debenture interest expense	\$98,437	\$103,502
Profit on redemption of debentures.....	<u>(22,718)</u>	<u>(6,375)</u>
	<u>\$75,719</u>	<u>\$ 97,127</u>

4. As at December 31, 1970 the company's actuary computed the present value of the company's liability to the employees' pension plan for unfunded past service costs at \$754,000 (after deducting \$47,000 charged to operations in 1971). The company proposes to fund this amount in equal annual instalments of approximately \$47,000 over the next 19 years and to absorb these costs against operations in the years in which the funding payments are made.
5. The minimum annual rentals, exclusive of taxes and other expenses, for stores, head office and warehousing locations leased by the companies total approximately \$582,000 under long term lease agreements extending beyond five years from January 31, 1971 and reducing in stages as leases expire at various dates to December 31, 1990.
6. Remuneration of directors and senior officers amounted to \$193,600 for the year ended January 31, 1971.
7. During the year a share purchase plan was established for certain officers and other members of the companies. Under this plan 9,900 common shares were reserved and all have been issued at \$20 per share. At the year-end 10% of the aggregate consideration (\$19,800) in respect of these shares had been received and the balance (\$178,200) is subject to call within ten years in amounts not exceeding 20% per annum.



MAHER
SHOES

LIMITED



ANNUAL
REPORT

December 31st, 1971

MAHER SHOES LIMITED

Annual Report for the fiscal period ended December 31, 1971

DIRECTORS

LANE R. CHESTER

FRANK R. HARVEY

EARL H. ORSER

JAMES R. SOUTH

GEORGE F. TRAVELLE

DONALD G. WILLMOT

THOMAS P. WILSON

OFFICERS AND MANAGEMENT

LANE R. CHESTER, Chairman of the Board

THOMAS P. WILSON, President

FRANK R. HARVEY, Vice-President, Finance and Treasurer

LORNE D. PHILLIPS, Vice-President, Maher Division

DONALD E. ROSS, Vice-President, Merchandising

ROBERT C. WILSON, Vice-President, Bonita Division

GEORGE F. TRAVELLE, Secretary

COPP THE SHOE MAN LIMITED

J. WEMYSS REID, President

AUDITORS

CLARKSON, GORDON & Co., TORONTO, CANADA

HEAD OFFICE

144 FRONT STREET WEST, TORONTO 1, CANADA

TRANSFER AGENT AND REGISTRAR

THE CANADA TRUST COMPANY, TORONTO, CANADA

HIGHLIGHTS

	12 MONTHS ENDED JANUARY 31, 1972 (unaudited)	FISCAL YEARS ENDED JANUARY 31,			
		1971	1970	1969	1968
Earnings per Common Share	2.70	2.37	2.55	2.43	1.98
Cash Flow per Common Share	4.37	3.74	3.78	3.41	2.75
Earnings	663,000	571,000	604,000	580,000	490,000
Dividends Paid per Preference Share	.60	.60	.60	.60	.60
per Common Share	.72	.70	.62	.54	.48
Return on Average Invested Capital	20.4%	20.0%	24.3%	26.4%	25.0%
Federal and Provincial Income Taxes	667,000	584,000	632,000	688,000	566,000
Depreciation and Amortization	321,000	262,000	232,000	186,000	129,000
Fixed Asset Additions (net)	623,000	655,000	452,000	295,000	116,000
Working Capital	1,768,000	1,722,000	1,789,000	1,631,000	1,715,000

REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS

FINANCIAL

The company has changed its fiscal year end from January 31 to December 31, effective in 1971. Traditionally earnings for an eleven month period ended December 31 exceed those of a complete year, and so that a twelve month comparison can be made of trends and other financial information reference is drawn below to the unaudited results for the twelve month period ended January 31, 1972.

The twelve month period ended January 31, 1972 was one of sustained growth, particularly in sales and earnings. Sales during this period amounted to \$17,602,000 compared with \$16,135,000 for the previous year, an increase of 9.1%. Earnings for the twelve month period ended January 31, 1972 increased by 16.1% to \$663,000 or \$2.70 per share compared with \$571,000 or \$2.37 per share for the previous year. Earnings per share are based upon the weighted average number of common shares outstanding during each period.

CAPITAL PROGRAMME

All operating divisions furthered their internal expansion and modernization programmes during 1971. Capital expenditures associated with retail expansion and store refurbishing amounted to \$527,000 bringing the total capital outlay in the past two years to an aggregate of \$1,186,000. This reflects the emphasis which has been placed on expansion as well as attesting to the steadily mounting increase in the capital investment necessary to continue the sustained growth which the company is aggressively pursuing.

In view of the increased costs faced by the company in the establishment of new locations, internal expansion must be very selective if a reasonable return on invested equity is to be maintained. In the last few years, growth has been financed through cash flow which in the most recent year amounted to \$4.37 per share compared to \$3.74 in the previous fiscal year.

EXPANSION

During 1971, a number of new stores were opened, principally in major shopping centres throughout Canada. Utilization of the company's specialty merchandising vehicles as a supplement to the traditional family concept of Maher and Copp has increased, resulting in greater market participation. It is not uncommon to find two or more of the company's specialty retail operations in any given community or regional mall development. Leases have been signed for a significant number of new locations to be opened in 1972.

Locations opened in 1971 include the following:

MAHER

- Belleville, Ontario – Quinte Mall
- Toronto, Ontario – Sherway Gardens
- Kapuskasing, Ontario – Model City Mall
- Trois Rivières, Quebec – Les Rivières Mall
- La Salle, Quebec – Le Cavalier Mall
- Truro, Nova Scotia – Fundy Trail Mall
- Brandon, Manitoba – Brandon Shoppers Mall

COPP

- Campbell River, British Columbia
- Nanaimo, British Columbia – Northbrook Mall
- West Vancouver, British Columbia – Park Royal Mall

BONITA

Toronto, Ontario – Sherway Gardens
Trois Rivières, Quebec – Les Rivières Mall

THE SHOE MAN

Burlington, Ontario – Burlington Mall
Trois Rivières, Quebec – Les Rivières Mall

LANE'S

Hamilton, Ontario
Kitchener, Ontario

FASHION

The desire of Canadians to be fashionable has increased sharply in recent years. Fashion has become an increasingly important factor in our economic life and it applies equally to all age groups. Each of the company's specialty retail divisions appeals to a separate segment of the consumer market and has developed its own distinctive personality. The Lane's division, the company's newest entry into specialty merchandising, caters to the medium to higher priced men's and women's market with special emphasis on branded footwear.

The Copp group of stores, based in Vancouver, continues to provide strong shoe representation in Western Canada. Not only does the family concept continue to expand and prosper but Copp is developing a complementary "boutique" type of shoe store which is compact in size and intimate in decor, with emphasis on individuality in fashion for the younger age group.

HEAD OFFICE

Since 1941, the home of Maher Shoes Limited has been 144 Front Street West, Toronto 1, Ontario. However, in March 1972, the company received a favourable offer to sell its present head office premises, which it has accepted, with the closing of the transaction scheduled for June of this year. The Company will lease back the premises for a term of three years which will provide adequate time to plan and effect an orderly relocation.

APPRECIATION

The record sales and earnings obtained in the past year were achieved through the dedicated efforts of our staff, customer loyalty and the continued support of our shareholders. Sincere gratitude is extended to all who have contributed to the progress of Maher Shoes Limited. Looking to the new year, we are determined to make the most of our opportunities and are confident that 1972 will be another good year for the company.

On Behalf of the Board of Directors



CHAIRMAN OF THE BOARD



PRESIDENT.

Toronto, Canada, May 3, 1972.

AUDITORS' REPORT

To the Shareholders of
MAHER SHOES LIMITED:

We have examined the consolidated balance sheet of Maher Shoes Limited and its wholly-owned subsidiary as at December 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of funds for the eleven month period then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the eleven month period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 14, 1972.

CLARKSON, GORDON & CO.,
Chartered Accountants

MAHER SH

(Incorporated under the laws of the State of New York and its wholly-owned subsidiaries)

CONSOLIDATED

DECEMBER 31, 1971

(with comparative figures for January 31, 1971)

ASSETS

	December 31, 1971	January 31, 1971
Current:		
Cash	\$ 72,000	\$ 16,000
Accounts receivable	367,000	257,000
Inventories, at the lower of cost and net realizable value	3,701,000	3,151,000
Prepaid expenses and other assets	146,000	130,000
	<u>4,286,000</u>	<u>3,554,000</u>
Fixed (note 2):		
Buildings	809,000	702,000
Fixtures and equipment, at cost	1,381,000	1,301,000
	<u>2,190,000</u>	<u>2,003,000</u>
Less accumulated depreciation	773,000	743,000
	<u>1,417,000</u>	<u>1,260,000</u>
Land	1,052,000	609,000
Improvements to store premises, at cost less accumulated amortization	1,237,000	1,043,000
	<u>3,706,000</u>	<u>2,912,000</u>
Excess of cost of investment in a predecessor company over values assigned to tangible assets on acquisition	<u>1,173,000</u>	<u>1,173,000</u>
	<u>\$9,165,000</u>	<u>\$7,639,000</u>

On behalf of the Board:

Lane R. Chester, Director

Thomas P. Wilson, Director

See accompanying notes

S LIMITED

(Incorporated under the laws of Ontario)

and a wholly owned subsidiary

BALANCE SHEET

As at December 31, 1971

(Audited and certified by Chartered Accountants at January 31, 1971)

LIABILITIES

	December 31, 1971	January 31, 1971
Current:		
Bank indebtedness	\$ 985,000	\$ 412,000
Accounts payable and accrued charges	990,000	1,182,000
Income and other taxes payable	466,000	238,000
Dividends payable	61,000	
	<u>2,502,000</u>	<u>1,832,000</u>
Long-term:		
6¼ % sinking fund debentures Series A maturing April 1, 1987 (note 3)	1,425,000	1,525,000
8½ % mortgage due October 13, 1973	475,000	
	<u>1,900,000</u>	<u>1,525,000</u>
Deferred Income Taxes	<u>92,000</u>	<u>70,000</u>
Shareholders' Equity:		
Capital (note 4) –		
Authorized:		
156,675 60¢ cumulative, non-redeemable preference shares without par value		
400,000 common shares without par value		
Issued:		
156,666 preference shares	1,413,000	1,413,000
209,900 common shares	1,053,000	1,053,000
	<u>2,466,000</u>	<u>2,466,000</u>
Retained earnings	2,205,000	1,746,000
	<u>4,671,000</u>	<u>4,212,000</u>
	<u>\$9,165,000</u>	<u>\$7,639,000</u>

ing notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF EARNINGS AND

RETAINED EARNINGS

ELEVEN MONTH PERIOD ENDED DECEMBER 31, 1971

(with comparative figures for the years ended January 31, 1971 and 1972)

	Eleven months ended December 31, 1971	Year ended January 31 1971	1972 (unaudited)
Sales	\$16,697,000	\$16,135,000	\$17,602,000
Deduct:			
Cost of goods sold, selling, warehousing, general and administrative expenses	14,796,000	14,532,000	15,736,000
Depreciation and amortization	291,000	262,000	321,000
Debenture expense	79,000	76,000	86,000
Bank and other interest (net)	119,000	110,000	129,000
	<u>15,285,000</u>	<u>14,980,000</u>	<u>16,272,000</u>
Earnings before income taxes	1,412,000	1,155,000	1,330,000
Income taxes	708,000	584,000	667,000
Earnings for the period (note 5)	704,000	571,000	\$ 663,000
Retained earnings, beginning of period	1,746,000	1,409,000	
	<u>2,450,000</u>	<u>1,980,000</u>	
Deduct dividends:			
Preference shares – 60¢ per share	94,000	94,000	
Common shares – 72¢ per share (70¢ in year ended January 31, 1971)	151,000	140,000	
	<u>245,000</u>	<u>234,000</u>	
Retained earnings, end of period	\$ 2,205,000	\$ 1,746,000	

See accompanying notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

ELEVEN MONTH PERIOD ENDED DECEMBER 31, 1971

(with comparative figures for the year ended January 31, 1971)

	Eleven months ended December 31, 1971	Year ended January 31, 1971
Funds provided:		
Earnings for the period	\$ 704,000	\$ 571,000
Add (deduct) non-cash items –		
Depreciation and amortization	291,000	262,000
Deferred income taxes	22,000	20,000
Loss (gain) on disposal of fixed assets	9,000	(8,000)
Total funds from operations	1,026,000	845,000
Sale of company-owned properties	180,000	147,000
Issue of common shares		20,000
	<u>1,206,000</u>	<u>1,012,000</u>
Funds applied:		
Additions to company-owned properties		
less mortgage of \$475,000 assumed in		
the period ended December 31, 1971	272,000	143,000
Fixtures, equipment and improvements (net)	527,000	659,000
Debentures purchased for redemption	100,000	74,000
Dividends	245,000	234,000
	<u>1,144,000</u>	<u>1,110,000</u>
Increase (decrease) in working capital	62,000	(98,000)
Working capital, beginning of period	<u>1,722,000</u>	<u>1,820,000</u>
Working capital, end of peroid	<u>\$1,784,000</u>	<u>\$1,722,000</u>

See accompanying notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1971

1. BASIS OF CONSOLIDATION AND CHANGE IN YEAR-END

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary Copp The Shoe Man Limited. During the period the companies changed their fiscal year-ends from January 31 to December 31. Accordingly, the consolidated financial statements reflect the results of operations and source and application of funds for the eleven month period ended December 31, 1971.

2. FIXED ASSETS

The company's land and buildings are valued at depreciated replacement value as determined by an appraisal in 1965, with subsequent additions at cost. Depreciation charges are based on appraised asset values where applicable.

Subsequent to December 31, 1971 the company (subject to a closing date of June 15, 1972) sold its head office property at 144 Front Street West, Toronto for \$1,500,000, and entered into an agreement with the purchaser to lease back the property for a three year period. The company also intends to dispose of certain of its other properties in 1972 and at this time it is not possible to determine the aggregate net gain that will be realized on completion of the disposal program.

3. SINKING FUND DEBENTURES

The debentures are secured by a first floating charge on the assets of the company. During the period the company purchased for redemption sufficient Series A debentures to meet the annual sinking fund payment due in 1972 and substantially all of the payment due in 1973. Payments required in 1974 and future years average approximately \$98,000 per annum to 1987, the date of maturity.

Debenture expenses included in the consolidated statement of earnings and retained earnings consist of the following:

	Eleven months ended December 31, 1971	Year ended January 31, 1971
Debenture interest	\$87,000	\$98,000
Less profit on redemption of debentures	8,000	22,000
	<u>\$79,000</u>	<u>\$76,000</u>

4. SHARE CAPITAL

In 1970, 9,900 common shares were issued to officers and employees of the company for an aggregate subscription price of \$198,000. At December 31, 1971, \$178,200 remained outstanding and is not due until called, which may be done within nine years at amounts not exceeding \$39,600 per annum.

5. EARNINGS PER SHARE

Earnings per share for the years ended January 31, 1972 and 1971 amounted to \$2.70 and \$2.37 respectively. Although earnings per share for the eleven months ended December 31, 1971 amount to \$2.94 per share it should be noted that the earnings for such an eleven month period traditionally exceed those for a full year.

6. LEASE OBLIGATIONS

There were retail occupancy leases in effect at December 31, 1971 which extended for periods beyond five years. The aggregate minimum and annual average rentals to be paid under these leases (excluding property taxes and certain other occupancy charges) are as follows:

<u>Period</u>	<u>Period Aggregate</u>	<u>Annual Average</u>
1972-1976	\$2,685,000	\$537,000
1977-1981	1,887,000	377,000
1982-1986	651,000	130,000
1987-1991	324,000	65,000

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of directors and senior officers (as defined under the Business Corporations Act, 1970, Ontario) amounted to \$214,000 for the eleven month period ended December 31, 1971.

8. UNFUNDED PENSION LIABILITY

As at December 31, 1971 the actuarially computed present value of the company's obligations for unfunded past service costs to the Maher Pension Plan approximated \$610,000 (after deducting \$47,000 charged to operations in the period ended December 31, 1971). The company proposes to fund this amount in equal annual installments of approximately \$47,000 over the next eighteen years and to absorb these costs against operations as the payments are made.

